

PERFORMANCE AUDIT
OF THE
D.J. JACOBETTI HOME FOR VETERANS
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
October 1999

EXECUTIVE DIGEST

D.J. JACOBETTI HOME FOR VETERANS

INTRODUCTION

This report, issued in October 1999, contains the results of our performance audit* of the D.J. Jacobetti Home for Veterans, Department of Military and Veterans Affairs.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

The D.J. Jacobetti Home for Veterans is located in Marquette. The Home was established and operates under Sections 36.1 - 36.12 of the *Michigan Compiled Laws*. The Home provides domiciliary* and nursing care* to aged and disabled military veterans and to widows, widowers, spouses, former spouses, and parents of veterans.

The Home is administered by the Veterans Affairs Directorate, Department of Military and Veterans Affairs. The Michigan Veterans Facilities' Board of Managers establishes operating policies for the Home under the direction of the Department.

As of April 30, 1999, the Home had 33 members in domiciliary care, 179 members in nursing care, and 157

* See glossary at end of report for definition.

employees. The Home expended \$10.6 million for the fiscal year ended September 30, 1998. The primary funding sources for Home operations were the State's General Fund, member payments for cost of care, the U.S. Department of Veterans Administration, and the Medicare Program.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the effectiveness of the Home's management of its medical and nursing care programs.

Conclusion: We concluded that the Home's management of its medical and nursing care programs was effective. We had no audit findings related to this audit objective.

Noteworthy Accomplishments: The Home received its nursing home license from the Department of Consumer and Industry Services in October 1995.

Audit Objective: To assess the effectiveness of the Home's management of selected operating practices.

Conclusion: We concluded that the Home's management of selected operating practices was generally effective. However, our assessment disclosed one material condition*:

- The Home needs to strengthen internal controls over its bank cash drawer (Finding 1).

The Home agreed with the corresponding recommendation and will implement a random, unannounced audit of the cash drawer on a quarterly basis, effective October 1, 1999.

* See glossary at end of report for definition.

Our assessment also disclosed reportable conditions* related to Medicare revenues, operational costs, member assessment controls, the electronic time clock system, the supplies and materials inventory, and administrative rules (Findings 2 through 7).

<hr/> AUDIT SCOPE AND METHODOLOGY	<p>Our audit scope was to examine the program and other records of the D.J. Jacobetti Home for Veterans. Our audit was conducted in accordance with <i>Government Auditing Standards</i> issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.</p> <p>Our audit procedures included the testing of records primarily covering the period October 1, 1996 through April 30, 1999.</p> <p>To assess the effectiveness of the Home's management of its medical and nursing care programs, we conducted tests of records related to medical and nursing care, reviewed audit reports, tested corrective actions taken, and conducted a member survey.</p> <p>To assess the effectiveness of the Home's management of selected operating practices, we conducted tests of records related to the operating practices.</p>
<hr/> AGENCY RESPONSES AND PRIOR AUDIT FOLLOW-UP	<p>Our audit report contains 7 findings and recommendations. The Department and Home agreed and will comply with the recommendations.</p> <p>The Home complied with 6 of the 8 prior audit recommendations that were included within the scope of our current audit. We repeated 1 prior recommendation but did not repeat the other recommendation because it was no longer applicable.</p>

* See glossary at end of report for definition.

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Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan
and
Mr. Richard LaFave, Chairman
Michigan Veterans Facilities' Board of Managers
Gwinn, Michigan

Dear General Stump and Mr. LaFave:

This is our report on the performance audit of the D.J. Jacobetti Home for Veterans, Department of Military and Veterans Affairs.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The D.J. Jacobetti Home for Veterans, located in Marquette, began operations in 1981 to provide domiciliary and nursing care to aged and disabled military veterans. The Home was established and operates under Sections 36.1 - 36.12 of the *Michigan Compiled Laws*. Later amendments to the enabling statute extended admission eligibility to widows, widowers, spouses, former spouses, and parents of veterans. The Home received its nursing home license from the Department of Consumer and Industry Services in October 1995.

The Home is administered by the Veterans Affairs Directorate, Department of Military and Veterans Affairs. The Michigan Veterans Facilities' Board of Managers, consisting of seven members who are appointed by the Governor for staggered terms of six years, establishes operating policies for the Home under the direction of the Department.

As of April 30, 1999, the Home had 33 members in domiciliary care (59 beds were available), 179 members in nursing care (182 beds were available), and 157 employees. The Home expended \$10.6 million for the fiscal year ended September 30, 1998. Primary funding sources for Home operations were \$4.6 million from the State's General Fund, \$3.9 million from member payments for cost of care, \$2.5 million from the U.S. Department of Veterans Administration, and \$145,200 from the Medicare Program.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit of the D.J. Jacobetti Home for Veterans, Department of Military and Veterans Affairs, had the following objectives:

1. To assess the effectiveness of the Home's management of its medical and nursing care programs.
2. To assess the effectiveness of the Home's management of selected operating practices.

Audit Scope

Our audit scope was to examine the program and other records of the D.J. Jacobetti Home for Veterans. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Methodology

Our audit procedures were performed during April and May 1999 and included the testing of records primarily covering the period October 1, 1996 through April 30, 1999. We conducted a preliminary review of the Home's operations to gain an understanding of its activities and to form a basis for selecting certain operations to audit. This included discussions with Home staff regarding their functions and responsibilities, tests of program records, and a review of the Department of Military and Veterans Affairs' and the Home's policy directives and operating procedures.

To assess the effectiveness of the Home's management of its medical and nursing care programs, we conducted tests of records related to medical and nursing care; reviewed audit reports from the U.S. Department of Veterans Administration and the Office of Health Services, Department of Consumer and Industry Services; tested corrective actions taken by the Home; and conducted a member survey to obtain the members' assessment of the medical and nursing care that they received.

To assess the effectiveness of the Home's management of selected operating practices, we conducted tests of records related to personnel and payroll, purchasing, member funds, cost of care assessments, supplies and materials inventory, food service, and facility maintenance.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 7 findings and recommendations. The Department and Home agreed and will comply with the recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Military and Veterans Affairs to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

The Home complied with 6 of the 8 prior audit recommendations that were included within the scope of our current audit. We repeated 1 prior recommendation but did not repeat the other recommendation because it was no longer applicable.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

MEDICAL AND NURSING CARE PROGRAMS

COMMENT

Background: In 1993, the U.S. Department of Veterans Administration established a requirement that each state veterans facility must meet its state nursing home licensure standards.

Audit Objective: To assess the effectiveness of the D.J. Jacobetti Home for Veterans' management of its medical and nursing care programs.

Conclusion: We concluded that the Home's management of its medical and nursing care programs was effective. We had no audit findings related to this audit objective.

Noteworthy Accomplishments: The Home received its nursing home license from the Department of Consumer and Industry Services in October 1995.

SELECTED OPERATING PRACTICES

COMMENT

Audit Objective: To assess the effectiveness of the Home's management of selected operating practices.

Conclusion: We concluded that the Home's management of selected operating practices was generally effective. However, our assessment disclosed one material condition. The Home needs to strengthen internal controls over its bank cash drawer.

Our assessment also disclosed reportable conditions related to Medicare revenues, operational costs, member assessment controls, the electronic time clock system, the supplies and materials inventory, and administrative rules.

FINDING

1. Cash Controls

The Home needs to strengthen internal controls over its bank cash drawer.

The Home acts as an intermediary between the local bank and the members. The members deposit and withdraw their personal funds from the Home's "bank." The Home then completes the transaction with the local bank. Also, meal tickets, stamps, and cigarettes are sold at the Home's bank location. The cash drawer is replenished each day after banking hours.

Our review of the internal controls over the Home's bank noted that the same person had responsibility for receiving deposits and disbursing funds, balancing the cash drawer with the deposit receipts and payment receipts issued, preparing the daily cash deposit, and preparing the request for the cash drawer replenishment. In addition, this person also had the capability to update the member banking system. An independent cash count had been performed only once since November 1996.

Although we did not note any shortages, providing for the separation of duties in cash handling and performing periodic random surprise cash counts would help ensure that member funds are safeguarded.

RECOMMENDATION

We recommend that the Home strengthen internal controls over its bank cash drawer.

AGENCY PRELIMINARY RESPONSE

The Home agreed with the recommendation and will implement a random, unannounced audit of the cash drawer on a quarterly basis, effective October 1, 1999.

FINDING

2. Medicare Revenues

The Home needs to enhance its efforts to identify eligible Medicare Title XVIII costs in order to maximize federal revenue collections.

The Home is eligible to bill Medicare for specified medical costs incurred while treating members. Our analysis of Medicare revenue received over the past three years indicated a decline of almost 50% from \$270,000 in fiscal year 1995-96 to \$145,000 in fiscal year 1997-98.

The Home does not have an individual who is trained in billing for Medicare reimbursement. Over the past three years, the Home has lost experienced individuals to early retirement and has had a change in its classification from a medical care facility to a nursing home for Medicare billing purposes. While external factors have had some effect on the amount of Medicare revenue that can be earned by the Home, employing an individual familiar with the Medicare billing process may enable the Home to claim the full amount of the Medicare reimbursement due.

Maximizing Medicare reimbursements would help reduce the Home's dependence on the State General Fund and may also reduce direct costs to the members.

RECOMMENDATION

We recommend that the Home enhance its efforts to identify eligible Medicare Title XVIII costs in order to maximize federal revenue collections.

AGENCY PRELIMINARY RESPONSE

The Home agreed with the recommendation and is in the process of filling a new administrative officer (adjutant) position dedicated in part to optimizing eligible Medicare reimbursements.

FINDING

3. Operational Costs

The Department of Military and Veterans Affairs charged the Home for costs that did not relate to the Home's operations.

The Department prorates central operational costs that relate to the support of the Grand Rapids and D.J. Jacobetti Homes for Veterans. However, in our review of the reported operational costs of the D.J. Jacobetti Home for Veterans for fiscal years 1996-97 and 1995-96, we noted the following charges for costs that did not relate to the Home's operations:

- a. In fiscal year 1996-97, the Department purchased teleconferencing equipment that was placed in the Central Office and the Grand Rapids and D.J. Jacobetti Homes for Veterans. The Homes were each charged one half of the costs rather than splitting the costs three ways. This resulted in a \$14,552 overstatement of operational costs at each Home.
- b. In fiscal year 1995-96, the Department charged the Home \$42,124 for computers, of which \$32,413 was used by another division of the Department and \$9,711 was used for renovating an office in the Department's headquarters building. This resulted in a \$42,124 overstatement of operational costs for the facility.

Charging excessive administrative costs to the Home results in inappropriate charges to members and the Home's State appropriation.

RECOMMENDATION

We recommend that the Department charge the Home for only those costs related to the Home's operations.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. However, it disagreed that the charges were excessive or inappropriate. The one-time operational costs were charged during the formation of the Veterans Affairs Directorate to accommodate

oversight and coordination of the unbudgeted veterans programming responsibility transferred to the Department. All of the cited charges were applied to veterans programming.

FINDING

4. Member Assessment Controls

The Home needs to improve its internal controls over member assessment calculations and verification of member personal information.

Upon admission to the Home, members are required to disclose information to the Home regarding their dependents, total assets, pensions and social security amounts, and other sources of income. The Home uses this information in computing the members' room and board assessment. We noted the following weaknesses in the member assessment process:

- a. The Home has assigned one person to review the personal information submitted by members and determine the amount each member will be assessed for room and board. Once the assessment is determined, there is no approval process whereby another person reviews the calculated assessment for propriety.

Although we did not note any incorrect assessments, an approval process would help ensure the propriety of all member assessment calculations.

- b. The Home does not require any support for the information provided by the members, such as tax returns or bank statements, to verify the information provided by the members. The information is accepted at face value.

Because of the impact on the amount charged to the members, verification of the calculations of the assessments and the information used in the assessments is important to ensure that the proper amount is charged to the members.

RECOMMENDATION

We recommend that the Home improve its internal controls over member assessment calculations and verification of member personal information.

AGENCY PRELIMINARY RESPONSE

The Home agreed with the recommendation and has incorporated member assessment verification and approval process responsibility in the duties and responsibilities of the new administrative officer (adjutant) position.

FINDING

5. Electronic Time Clock System

The Home did not fully implement the electronic time clock system to account for the hours worked by employees.

The Home purchased electronic time clocks over the past nine years (at a cost of \$20,886) to take advantage of the benefits offered by the system, such as accurately accruing daily and weekly time, ensuring the accurate use of annual and sick leave, reducing paper work, tightening controls over time records, and producing electronic time and attendance reports.

The Home continues to use a manual timekeeping system even though electronic time clocks are available and being used by Home employees. The Home only uses reports from the electronic time clocks to occasionally verify time and attendance reported by employees on the manual time sheets.

Because of various problems with staff, the time clocks, and operating shifts, the Home has chosen not to use the electronic time clocks as the time sheet. However, the Home continued to purchase clocks as recently as January 1999.

RECOMMENDATION

We recommend that the Home fully implement the electronic time clock system to account for the hours worked by employees.

AGENCY PRELIMINARY RESPONSE

The Department and Home agreed with the recommendation. A computer program and year 2000 functionality updates are underway as a measure to optimize system performance.

FINDING

6. Supplies and Materials Inventory

The Home needs to improve its internal controls over the supplies and materials inventory.

In our review of the Home's internal controls over its inventory system, we noted the following weaknesses:

- a. Requisition forms used by the Home to account for distributions from inventory stock were not prenumbered.

Department of Management and Budget Administrative Guide procedure 1270.04 requires the use of prenumbered requisition forms for issuing items from inventory. Prenumbered requisition forms serve as a control to ensure that all distributions from inventory stock are properly authorized and accounted for within the Home's inventory system.

- b. The Home did not separate the custody, control, and authorization of inventory. We noted that the same individual received and entered the inventory on the computerized inventory system, filled the requisitions that subtracted items from the inventory system, and completed the annual physical inventory.

The duties of custody, control, and authorization of inventory in the storeroom should be separated.

- c. Adjustments to the inventory records were not approved by a supervisory employee independent of the storekeeping function.

Administrative Guide procedure 1270.04 requires the approval of all adjustments to inventory records. Employees who had custody of inventory also performed the inventory counts and prepared the resulting adjustments to the inventory records. Our review of 372 items from the October 1998 inventory count sheets indicated that 217 (58%) of these items had adjustments made to them.

- d. Head nurses had unlimited access to the storeroom during each shift. Access to the storeroom should be limited to establish accountability for the inventory.

RECOMMENDATION

We recommend that the Home improve its internal controls over the supplies and materials inventory.

AGENCY PRELIMINARY RESPONSE

The Home agreed with the recommendation. Prenumbered requisition forms will be utilized beginning in January 2000. Personnel other than storeroom staff will perform future physical inventories. All adjustments to inventory records are now monitored by the accounting department. Nursing staff no longer have unlimited access to the main storeroom.

FINDING

7. Administrative Rules

The Home and the Department had not promulgated administrative rules.

Section 24.233 of the *Michigan Compiled Laws* provides that administrative rules shall be promulgated to describe an agency's organization and methods of operation, as well as to prescribe the agency's procedures available to the public and the methods by which the public may obtain information.

The Michigan Veterans Facilities' Board of Managers had adopted policies covering various aspects of the Home's operation. However, these Board policies are not as authoritative as administrative rules. Occasionally, court action is required for the collection efforts used by the Home to obtain payment for the cost of care. Because administrative rules are more authoritative than the Board policies, implementation of administrative rules would likely strengthen the Home's legal position in the event of such court actions.

The policies for which administrative rules should be promulgated include those regarding requirement for admission and the calculation of member assessments for the cost of care.

This finding was reported in our prior audit report. The drafts of the administrative rules are in the process of being reviewed by the Attorney General.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE HOME AND THE DEPARTMENT PROMULGATE ADMINISTRATIVE RULES.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. Rule promulgation was temporarily suspended because of a need to reconcile the proposed rules with existing State code governing nursing home operations when the Grand Rapids and D.J. Jacobetti Homes for Veterans received nursing home licenses. Administrative rule promulgation has once again resumed.

Glossary of Terms

domiciliary care	Serves individuals who need very little nursing care, but have needs that require a structured environment.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
material condition	A serious reportable condition which could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the opinion of an interested person concerning the effectiveness and efficiency of the program.
nursing care	Serves individuals with moderate disabilities.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.